TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 430 - HB 518

March 21, 2011

SUMMARY OF BILL: Gives certain members of the Tennessee Consolidated Retirement System (TCRS) who leave employment with an employer participating in TCRS for the purpose of military service in the armed forces of the United States the option of establishing retirement credit within TCRS for their military service if certain conditions are met.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - $227,800

Increase Federal Expenditures - $60,300

Increase Local Expenditures - $243,000*

Other Fiscal Impact – The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be $5,415,000.

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- Based on information provided by TCRS, this bill will increase the lump sum pension liability of TCRS by approximately $5,415,000 ($2,460,000 will be attributable to state employees, $795,600 will be attributable to teachers, and $2,159,400 will be attributable to local government employees).
- Pursuant to Tenn. Code Ann. § 3-9-103(b), TCRS utilizes a 20-year horizon for estimating annual amortized payments of pension benefits.
- Pursuant to Tenn. Code Ann. § 8-34-505, TCRS utilizes a 7.5 percent interest rate for estimating annual amortized payments of pension benefits.
- Assuming a 20-year horizon, a 7.5 percent interest rate, and an increased lump sum liability of $2,460,000 relative to state employees, the annual amortized payments will total $241,307 per year.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds. Therefore, a recurring increase in state expenditures

of $180,980 ($241,307 x 75%); and a recurring increase in federal expenditures of $60,327 ($241,307 x 25%).

- Assuming a 20-year horizon, a 7.5 percent interest rate, and an increased lump sum liability of $795,600 relative to teachers, the annual amortized payments will total $78,042 per year.
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent with local government funds. Therefore, a recurring increase in state expenditures of $46,825 ($78,042 x 60%); and a recurring increase in local government expenditures of $31,217 ($78,042 x 40%).
- Assuming a 20-year horizon, a 7.5 percent interest rate, and an increased lump sum liability of $2,159,400 relative to local government employees, the annual amortized payments will total $211,820 per year.
- Retirement benefits for local government employees are funded 100 percent with local government funds. Therefore, a recurring increase in local government expenditures of $211,820.
- The total recurring increase in state expenditures will be $227,805 ($180,980 + $46,825).
- The total recurring increase in federal expenditures will be $60,327.
- The total recurring increase in local government expenditures will be $243,037 ($31,217 + $211,820).

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

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